

**DEPARTMENT OF ENERGY  
BONNEVILLE POWER ADMINISTRATION**

Proposed Revised Methodology for Determining the Average System Cost of Resources for Electric  
Utilities Participating in the Residential Exchange Program Established by Section 5(c)  
of the Pacific Northwest Electric Power Planning and Conservation Act

February 2008

## **AVERAGE SYSTEM COST METHODOLOGY BONNEVILLE POWER ADMINISTRATION**

The following rule sets forth the procedures by which regional utilities will submit Average System Cost (ASC) filings to the Bonneville Power Administration (BPA) and by which BPA will review such filings. BPA's review shall determine a Utility's ASC for the purpose of participating in the Residential Exchange Program (REP) pursuant to section 5(c) of the Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act). 16 U.S.C. § 839c(c).

### **I. DEFINITIONS**

- A. **Appendix 1:** Appendix 1 is the electronic form on which a Utility reports its Contract System Costs and other necessary data to BPA for the calculation of the Utility's ASC.
- B. **Average System Cost:** The rate charged by a Utility to BPA for the agency's purchase of power from the Utility under section 5(c) of the Northwest Power Act for each Exchange Period and is the quotient obtained by dividing Contract System Costs by Contract System Load.
- C. **Base Period:** The calendar year of the most recent FERC Form 1 data.
- D. **Base Period ASC:** The ASC determined in the Review Period using the Utility's Base Period data.
- E. **Billing Credit:** Billing credits may be granted to customers who request for conservation activities or resource acquisitions undertaken by the customer, pursuant to section 6(h) of the Northwest Power Act.
- F. **Commission:** The Federal Energy Regulatory Commission.
- G. **Contract System Costs:** The Utility's costs for production and transmission resources, including power purchases and conservation measures, which costs are includable in and subject to the provisions of Appendix 1. Under no circumstances shall Contract System Costs include costs excluded from ASC by section 5(c)(7) of the Northwest Power Act.
- H. **Contract System Load:** The total regional retail load included in the Form 1, or for a consumer-owned utility (preference customers) the total retail load from the most recent annual audited financial statement as adjusted pursuant to this Average System Cost Methodology.
- I. **Exchange Period:** The period during which a Utility's BPA-approved ASC is effective for the calculation of the Utility's REP benefits. The initial Exchange Period under this ASC Methodology is from October 1, 2008, through September 30, 2009. Subsequent Exchange Periods shall be the period of time concurrent with the BPA rate period beginning October 1, or the effective date of BPA's rate period.

J. **Exchange Period ASC:** The Base Period ASC escalated to a year(s) consistent with the Exchange Period.

K. **Form 1:** The annual filing submitted to the Federal Energy Regulatory Commission required by 18 CFR §141.1.

L. **Jurisdiction:** The service territory of the Utility within which a particular Regulatory Body has authority to approve a Utility's retail rates. Jurisdictions must be within the Pacific Northwest region as defined in the Northwest Power Act.

M. **Labor Ratios:** The ratios which assign costs on a pro rata basis using salary and wage data for production, transmission, and distribution/other functions included in the Utility's most recently filed Form 1. For consumer-owned utilities, comparable data shall be used based on the cost of service study used as the basis for retail rates currently in effect.

N. **New Large Single Load:** That load defined in section 3(13) of the Northwest Power Act and determined by BPA as specified in power sales contracts with its Regional Power Sales Customers.

O. **Public Purpose Charge:** Any charge based on a Utility's total retail sales in a jurisdiction that is given to independent non-profit entities or agencies of state and local governments for the purpose of funding within the Utility's service territory: (i) conservation programs in lieu of utility conservation programs; and (ii) acquisition of renewable resources.

P. **Regional Power Sales Customer:** Any entity that can contract directly with BPA for the purchase of power under sections 5(b), 5(c), or 5(d) of the Northwest Power Act for delivery in the region as defined by section 3(14) of the Northwest Power Act.

Q. **Residential Purchase and Sale Agreement (RPSA):** The power sales contract pursuant to section 5(c) of the Northwest Power Act between BPA and the Utility that defines and implements the power purchase and sale.

R. **Review Period:** The period of time during which a Utility's Appendix 1 is under review by BPA. The review period begins on May 1 and ends on October 1 of the year before BPA implements a change in wholesale power rates.

S. **Regulatory Body:** A state commission or consumer-owned utility governing body, or other entity authorized to establish retail electric rates in a Jurisdiction.

T. **Utility:** An investor-owned or consumer-owned (preference) Regional Power Sales Customer that has executed a Residential Purchase and Sale Agreement.

## **II. FILING PROCEDURES:**

The following procedures state the filing requirements for all Utilities that file an Appendix 1 to participate in the REP. Utilities must file an Appendix 1 with BPA to permit the calculation of each Utility's ASC.

A. Initial Exchange Period (FY 2009) and Second Exchange Period (FY 2010-2011).

1. A Utility's ASC for fiscal year (FY) 2009 shall be determined by BPA in accordance with this ASC Methodology and shall constitute the effective ASC for the REP effective October 1, 2008, unless (1) the Commission fails to approve this Methodology; (2) the Commission amends the Methodology in a manner that changes the Utility's ASC established by BPA; or (3) the Methodology is legally challenged and not affirmed on appeal by the United States Court of Appeals for the Ninth Circuit.
2. The initial Exchange Period under this Methodology shall commence October 1, 2008, provided that the Commission has granted the Methodology interim or final approval by that date. The initial Exchange Period shall end on September 30, 2009.
3. At the time this Methodology is established by BPA, Utilities will have already filed Appendix 1s for FY 2009 under the draft version of this Methodology (or in the absence of a Utility-filed Appendix 1, the Utility will default to the Appendix 1 used as part of BPA's WP-07 Supplemental Power Rate Proposal). BPA will have conducted an expedited review of these filings and established an ASC for each Utility as prescribed in the Federal Register Notice publishing the proposed Methodology. BPA also will have filed the Methodology with the Commission for confirmation and approval.

After receiving Commission approval of the ASC Methodology, BPA shall review the ASC determinations resulting from the expedited review. BPA shall compare the proposed ASC Methodology provisions with the final Methodology. If there are no differences between the data required by the Utility's initial Appendix 1 (or the default WP-07 Supplemental BPA Appendix 1) and the Appendix 1 to be filed under the final Methodology, the Utility's initial Appendix 1 (or the default WP-07 Supplemental Appendix 1) can be used for the Utility's final ASC determination for FY 2009. If the data required for the Utility's initial Appendix 1 (or the default WP-07 Supplemental BPA Appendix 1 differs from the data required for the final Methodology), such data shall be adjusted or supplemented to conform to the final Methodology. BPA shall conduct an abbreviated review of such changes with all interested parties.

If the Appendix 1 filing is the same but the substantive criteria of the Methodology have changed from the proposed Methodology, BPA will recalculate the Utility's ASC by reviewing the Appendix 1 filing and applying the final Methodology criteria. Because the Utility's Appendix 1 will have been analyzed in BPA's expedited review, BPA shall conduct an abbreviated review with all interested parties to ensure that the Utility's ASC complies with the final Methodology.

After reviewing the Utility's ASC established in the expedited review and determining that the ASC satisfies the data requirements and substantive provisions of the final ASC Methodology, BPA shall issue a supplemental ASC Report to reflect the changes to the ASC Report from the expedited review.

4. At the time this Methodology is approved by the Commission, Utilities already may have filed Appendix 1s for FY 2010-2011 by July 1, 2008, as prescribed in the Federal Register Notice publishing the proposed Methodology. If a Utility has failed to file an Appendix 1 by July 1, 2008, the Utility will receive no REP benefits for the FY 2010-2011 period. After receiving all exchanging Utilities' Appendix 1s by July 1, BPA will promptly publish a schedule for the review of the filings. BPA may issue a schedule different from the prescribed schedule in order to ensure that ASCs are established in time to be incorporated in BPA's FY 2010-2011 wholesale power rate initial proposal.

After receiving Commission approval of the ASC Methodology, BPA shall review the ASC determinations resulting from BPA's review. BPA shall compare the ASC Methodology provisions used for the ASC determinations with the final Methodology. If there are no differences between the data required by the Utility's Appendix 1 and the Appendix 1 to be filed under the final Methodology, the Utility's Appendix 1 can be used for the Utility's final ASC determination for FY 2010-11. If the data required for the Utility's Appendix 1 differs from the data required for the final Methodology, such data shall be adjusted or supplemented to conform to the final Methodology. BPA shall conduct an abbreviated review of such changes with all interested parties.

If the Appendix 1 filing is the same but the substantive criteria of the Methodology have changed from the proposed Methodology, BPA will recalculate the Utility's ASC by reviewing the Appendix 1 filing and applying the final Methodology criteria. Because the Utility's Appendix 1 will have been analyzed in BPA's review, BPA shall conduct an abbreviated review with all interested parties to ensure that the Utility's ASC complies with the final Methodology.

After reviewing the Utility's ASC as established in BPA's review and determining that the ASC satisfies the data requirements and substantive provisions of the final ASC Methodology, BPA will establish the ASC as the Utility's final ASC for FY 2010-2011. BPA shall issue a supplemental ASC Report to reflect the changes to the ASC Report from the BPA review process.

#### **B. Subsequent Exchange Period Filing Requirements**

1. Subsequent Exchange Periods shall be equal to the term of subsequent BPA wholesale power rate periods. ASCs shall change during such Exchange Periods only for the reasons provided in this Methodology.

2. Except as provided for the initial and second Exchange Periods under this Methodology, Utilities shall electronically file an Appendix 1 with BPA by May 1 of each year. In years when BPA is not commencing a Wholesale Power Rate Proceeding, these filings shall be for informational purposes only and shall not change a Utility's ASC. The Appendix 1 shall be accompanied by a loss study, supporting documentation, studies and analysis used to prepare the Appendix 1. For investor-owned utilities, the Appendix 1 shall be based on the Utility's most recently filed Form 1 and limited information from prior FERC Form 1 filings as required. For consumer-owned utilities, the Appendix 1 shall be based on the Utility's most recent audited financial information and shall be accompanied by a cost of service analysis. Each Appendix 1 shall contain an attestation signed by a senior officer of the Utility stating that the filing has been compiled in accordance with the Commission's Uniform System of Accounts,

this ASC Methodology, and Generally Accepted Accounting Principles and is consistent with applicable orders and policies of the Utility's Regulatory Body.

3. Failure to File an Appendix 1 and Patently Deficient Appendix 1

a. *Failure to File an Appendix 1.* If a Utility fails to file its initial Appendix 1 by the time designated by BPA, BPA may use the WP-07 Supplemental Appendix 1 as a default for the initial 1-year Exchange Period, *i.e.*, until October 1, 2009. Following the initial 1-year Exchange Period under this Methodology, Exchange Periods shall be equal to the term of subsequent BPA wholesale power rate periods, beginning on October 1 of each year that BPA establishes new Wholesale Power Rates. After the initial and second Exchange Periods, if a Utility fails to file its Appendix 1 by May 1 of the year preceding BPA's establishment of new Wholesale Power Rates, BPA may set the Utility's ASC equal to the PF Exchange rate until the end of the Exchange Period.

b. *Filing a Patently Deficient Appendix 1.* If a Utility files its initial Appendix 1 and it is patently deficient as determined by BPA, BPA may use the WP-07 Supplemental Appendix 1 as a default for the initial 1-year Exchange Period, *i.e.*, until October 1, 2009. Following the initial 1-year Exchange Period under this Methodology, Exchange Periods shall be equal to the term of subsequent BPA wholesale power rate periods, beginning on October 1 of each year that BPA establishes new Wholesale Power Rates. After the initial and second Exchange Periods, if a Utility files its Appendix 1, and it is patently deficient, BPA may set the Utility's ASC equal to the PF Exchange rate until the end of the Exchange Period.

c. *Period to Cure.* If a Utility fails to file an Appendix 1 by the time designated by BPA, or if it files an ASC which BPA determines is patently deficient, BPA shall provide such Utility with written notice and a period of seven (7) days within which to file, or re-file, as the case may be, a new or corrected Appendix 1. In the event the Utility fails to file or re-file, as specified above, by the end of the seven-day cure period, or if such re-filed Appendix 1, is likewise determined patently deficient, BPA may set the Utility's ASC equal to the PF Exchange rate until the end of the Exchange Period.

C. Notice of Filing of Appendix 1

1. After a Utility files electronically an Appendix 1, BPA shall provide access to these filings to each of BPA's Regional Power Sales Customers or its designee.

2. BPA shall advise eligible parties of the right to file a petition to intervene in BPA's ASC review process.

**III. BPA REVIEW PROCESS:**

During a Review Period, BPA proposes the following procedures apply. These procedures shall not apply to informational ASC filings made outside of a Review Period.

A. BPA may intervene in each retail rate proceeding for each Utility participating in the Residential Exchange Program. If BPA or any of its Regional Power Sales Customers has been denied the right to participate in a retail rate review proceeding of a filing Utility with rights equivalent to any retail customer of the Utility, BPA may set that Utility's ASC equal to the PF Exchange Rate for the following Exchange Period. Exchanging consumer-owned utilities must provide BPA and Regional Power Sales Customers with at least 180 days notice of their intent to change their retail rates.

B. Each Appendix 1 shall be reviewed by BPA or its designee and subject to a public process to determine whether the Contract System Costs are consistent with Generally Accepted Accounting Principles for electric utilities, whether Contract System Costs contain only allowed costs, and whether the revised Appendix 1 complies with the requirements of this Methodology, including applicable definitions and requirements incorporated from the Commission's Uniform System of Accounts. In addition, each Appendix 1 shall be reviewed by BPA or its designee to determine whether the Contract System Load used by the Utility is an appropriate load for purposes of the Utility's ASC computation.

C. In calculating ASCs, BPA will make an independent determination of (1) the appropriateness of the inclusion of costs; (2) the reasonableness of the costs included in Contract System Costs; and (3) the appropriateness of Contract System Loads. BPA shall not be obligated to pay an ASC different than the ASC based on Contract System Costs and Contract System Load as determined by BPA; provided that if a final order of the Commission or a reviewing court rejects BPA's ASC determination, then the ASC payable by BPA shall be the ASC as revised by BPA on remand.

D. The Appendix 1 filing shall be subject to review as follows:

The BPA review process (not including the initial and second Exchange Periods) commences on May 1 of the Review Period (or such other date as may be established by BPA). BPA will review all Utilities' ASCs concurrently in a public process. Any Regional Power Sales Customer who so requests will be accorded party status for BPA's ASC review process if said request is received by the established deadline. Other interested parties also may submit a petition to intervene and BPA shall grant party status at BPA's discretion. Petitions to intervene must state with particularity the petitioner's interest in the ASC review proceeding. Petitions to intervene must be filed for each respective BPA review proceeding in order for a party to comment on such individual proceedings. The filing Utility is automatically a party to its own ASC review proceeding. BPA will grant or deny petitions to intervene within seven days after the deadline for filing such petitions.

Note: The dates identified below and those listed on the Sample Timeline on page 12 herein are generic and intended to illustrate a timeline that is representative of the ASC review process. Each Spring prior to the Review Period, BPA will post a detailed schedule, accommodating the applicable holidays and weekends, that shall be the official schedule for that Review Period.

1. BPA will provide electronic access for all Regional Power Sales Customers to the Utilities' Appendix 1 filings within one week after filing. BPA will commence workshops on all Appendix 1 filings by June 1. Utilities filing Appendix 1s shall have staff or agents available for questioning by

BPA and other parties to the proceeding. The primary purpose of the first workshop is to clarify data, work papers, supporting documentation and assumptions used to prepare the Appendix 1.

2. By June 8, BPA and parties may electronically file data requests with the Utility and with BPA. BPA will make data requests available to all parties. Each Utility shall respond to requests for information relevant to the Utility's Appendix 1 filing, provided that the furnishing of proprietary or confidential information to any party may be made contingent on the granting of proper safeguards to prevent unauthorized use or disclosure.

3. By June 15, each Utility may file objections to data requests received. Objections must be electronically filed with BPA and must state the specific basis for the objection. The party submitting the data request may electronically file a response to the objection by June 16. BPA will issue a ruling as to whether the Utility's objection will be sustained or overruled by June 18. If a Utility does not provide requested data, BPA may, in its discretion, remove from Contract System Costs all costs associated with the data not provided.

4. By June 22, each Utility must respond to all valid data requests. Responses shall be electronically filed with the requestor and with BPA. BPA will make data responses available to all parties.

5. By July 7, BPA and parties may electronically file with BPA an issue list identifying contested elements of a Utility's ASC filing. BPA will make the issue lists available to all parties.

6. By July 21, the Utility will electronically file a response to issue lists. BPA and other parties also may file comments in response to issue lists.

7. By July 27, a second workshop will be held to discuss the issue lists and any responding comments. The goal of this workshop is to resolve issues raised by parties.

8. Requests for oral argument before the Administrator or his/her designee must be submitted in writing to BPA by July 31. Such requests shall contain a statement setting forth reasons why the party believes oral argument is necessary. BPA, at its discretion, may grant or deny any request for oral argument.

9. In the event a request for oral argument is granted, the requesting party shall present its argument first. Responding parties shall present their arguments thereafter. The Administrator or his/her designee, at his discretion, may provide an opportunity for the requesting party to reply. Oral argument shall be presented no later than August 10.

10. By August 28, BPA will publish and electronically serve a Draft ASC Report on all parties. The Report will contain analyses and decisions on all contested issues raised in the ASC review process.

11. By September 12, the Utility and parties may file comments on the Draft ASC Report.

12. By October 1, the BPA Administrator will issue a Final ASC Report.

13. If BPA has not issued a Final ASC Report as of October 1 following an Appendix 1 filing, the ASC proposed by the Utility shall be the Exchange Period ASC until the date BPA issues the Final ASC Report. The final ASC determined by BPA shall then be the Exchange Period ASC until the end of the Exchange Period.

#### **IV. RULES FOR DETERMINING EXCHANGE PERIOD AVERAGE SYSTEM COST**

##### **A. Escalation to Exchange Period**

1. BPA will escalate the Base ASCs to the Exchange Period based on identified escalation rates and energy price forecasts [to be determined in the ASCM consultation].

2. If the escalators determined in the ASCM are no longer available, BPA will escalate those costs using the forecast of the GDP Price Deflator, or will designate an equivalent source of escalators.

3. Escalation of base year data to the Exchange Period forecast shall be to the midpoint in time of the Exchange Period.

##### **B. Treatment of Sales for Resale and Power Purchases in Forecast – Normalization**

1. BPA will use a rolling 5-year average of short-term (less than 1 year) energy sales and energy purchases in the Appendix 1 to determine the quantity of short-term sales and purchases. In the event the 5-year data is not available or incomplete, BPA will use what data is available.

2. For pricing, BPA will use its models and methodologies used to develop market price forecasts in BPAs subsequent initial wholesale power rate filings.

3. BPA will escalated long-term and intermediate-term (as defined by FERC) firm purchased power costs and sales for resale revenues at the rate of inflation

##### **C. Major Resource Additions**

1. In the event a Utility has a major resource projected to come on-line or be purchased and used to meet that Utility's retail regional load during the BPA rate period, the Utility will submit two ASC filings:

2. One conforming to the Form 1 described above, and

3. A second filing that incorporates the costs in the appropriate year(s) associated with the new resource based on the expected commercial operation date of the new resource or, for resource purchases, the date the sale is completed and the purchased resource is used to meet the Utility's regional retail load.

a. In addition to including the estimated capital and operating costs of the new resource, the Utility must also estimate the changes in purchased power expense, sales for resale credit and other costs based on the additional generation provided by the new resource.

b. Because the commercial on-line dates of power plants often change during the construction process, BPA will not adjust the Utility's ASC until the new generating resource begins commercial operation.

#### D. Major Resource Reductions

1. For a major resource used to meet the Utility's Contract System Load that is projected to be retired, sold, or otherwise unavailable to serve load during the BPA rate period, BPA proposes that the Utility make two ASC filings:

2. One conforming to the Form 1 described above, and

3. A second filing that excludes the costs associated with the retired, sold, or otherwise unavailable to serve load resource based on the expected retirement or closing date of the resource.

a. In addition to including the reduction in estimated capital and operating costs of the retired, sold, or otherwise unavailable to serve load resource, the Utility must also estimate the changes in purchased power expense, sales for resale credit and other costs based on the generation formerly provided by the retired or sold resource.

b. BPA proposes not to adjust the Utility's ASC until the official retirement or transfer date of the generating resource.

#### E. Changes to Service Territory

1. In the event that a Utility acquires a new service territory or relinquishes a portion of its service territory, the Utility will submit two ASC filings:

2. One conforming to the Form 1 described above, and

3. A second filing that incorporates:

a. The increase or reduction in Contract System Load associated with the acquisition or reduction in service territory.

b. The increase or reduction in Contract System Costs associated with the acquisition or relinquishment of the service territory.

c. In addition to including the estimated capital and operating costs increases or reductions resource, the Utility must also estimate the changes in purchased power expense, sales for resale credit and other costs based on the changes in the service territory

d. Because the date of the forecasted change in the new service territory could change during the period, BPA will not adjust the Utility's ASC until the change in service territory takes place.

F. Forecasted Contract System Load

1. All utilities are required to provide a forecast of their Contract System Load, as well as a current distribution loss study, with their Appendix 1 filing.

**V. CHANGE IN AVERAGE SYSTEM COST METHODOLOGY**

The Administrator, at his or her discretion, or upon written request from three-quarters of the Utilities that are parties to contracts authorized by section 5(c) of the Northwest Power Act, or from three-quarters of BPA's preference customers, or from three-quarters of BPA's direct-service industrial customers may initiate a consultation process as provided in section 5(c) of the Northwest Power Act. After completion of this process, the Administrator may file a new ASC Methodology with the Commission. However, the Administrator shall not initiate any consultation process until one year of experience has been gained under the then-existing ASC Methodology, *viz*; one year after the then-existing Methodology has been adopted by BPA and approved by the Commission through interim or final approval, whichever occurs first.

**SAMPLE TIMELINE  
REVIEW PROCEDURES  
BONNEVILLE POWER ADMINISTRATION**

Note: BPA's review of Utilities' Appendix 1s occur only in the year before BPA establishes new Wholesale Power Rate Schedules. However, Utilities are required to file an Appendix 1 by May 1 of each year in order that BPA can maintain current data.

The schedule below is a generic schedule that is representative of the timeline for the ASC review process. Each spring in the year prior to BPA implementing new Wholesale Power Rates, BPA will post a detailed schedule incorporating the applicable holidays and weekends.

DAY <sup>1</sup>	EVENT
May 1	Utilities file electronic Appendix 1s with BPA.
May 15	Deadline to file petitions to intervene with BPA.
May 22	BPA grants or denies petitions to intervene.
June 1	Workshop(s) on Utilities' Appendix 1 filings.
June 8	Deadline for data requests to Utilities from BPA and parties.
June 15	Deadline for Utilities to object to data requests.
June 16	Deadline for party's response to Utilities' objections.
June 18	BPA issues decision regarding data request disputes.
June 21	Deadline for Utilities to respond to data requests.
July 6	Deadline for BPA and parties' issue lists on Utilities' filings.
July 20	Deadline for reply issue lists from all parties on Utilities' filings.
July 27	Workshop to discuss issue lists on Utilities' filings.
July 31	Deadline to request oral argument.
August 3	BPA grants or denies requests for oral argument.
August 10	Oral argument (if granted).
August 28	BPA publishes Draft ASC Report.
September 12	Deadline for Utilities' and parties' comments on Draft ASC Report.
October 1	BPA Administrator issues Final ASC Report.

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<sup>1</sup> Deadlines end at 5 p.m., Pacific Prevailing Time, of the due date.

## APPENDIX 1 INSTRUCTIONS

Appendix 1 is the form on which a Utility reports its Contract System Costs and other necessary data for the calculation of ASC. Appendix 1 is an electronic template consisting of seven schedules and 19 supporting schedules that must be completed by the Utility in accordance with these instructions and the provisions of the Footnotes following the schedules. The primary source of data for the investor-owned utilities' Appendix 1 filings is the Utility's prior year FERC Form No. 1 (Form 1) filing. Any items not applicable to the Utility shall be so identified. For consumer-owned utilities that do not follow the Commission Accounts, filings must include reconciliation between Utility accounts and the items allowed as Contract System Costs. In addition, consumer-owned utilities must submit a cost-of-service analysis prepared by an independent accounting or consulting firm that is used for determining retail rates currently in effect.

The primary schedules are as follows:

Schedule 1:	Plant Investment/Rate Base
Schedule 1A:	Cash Working Capital
Schedule 2:	Capital Structure and Rate of Return
Schedule 3:	Expenses
Schedule 3A:	Taxes (Including Income Taxes)
Schedule 3B:	Other Included Items
Schedule 4:	Average System Cost

The filing Utility shall reference and attach workpapers, documentation and other required information that supports costs, including details of allocation and functionalization.

All references to the Commission Accounts are to the Commission's Uniform System of Accounts as of July 1, 2006. The costs includable in the attached schedules are those includable by reason of the definitions in the Commission Accounts. If the Commission Accounts are later revised or renumbered, any changes shall be incorporated into this form by reference, except to the extent BPA determines that a particular change results in a change in the type of costs allowable for REP purposes. In such event, BPA shall address the changes, including escalation rules, in its Review Process for the following Exchange Period.

BPA may require a Utility to account for purchased power transactions with affiliated entities as though the affiliated entities were owned in whole or in part by the Utility, if necessary, to properly determine and or functionalize the Utility's costs.

A Utility operating in more than one Pacific Northwest Jurisdiction shall file one Appendix 1.

A Utility operating in Jurisdictions outside the Pacific Northwest shall allocate its total system costs among its Jurisdictions within the Pacific Northwest and outside the Pacific Northwest in accord with the same allocation methods and procedures used by the Regulatory Body(ies) to establish jurisdictional

costs and resulting revenue requirements. Such Utility's Appendix 1 filing shall include details of the allocation.

This allocation shall exclude all costs of additional resources used to meet loads outside the region, as required by section 5(c)(7) of the Northwest Power Act. All schedule entries and supporting data shall be in accord with Generally Accepted Accounting Principles and practices as these principles and practices apply to the electric utility industry.

## **AVERAGE SYSTEM COST METHODOLOGY FUNCTIONALIZATION**

Functionalization of each account included in a Utility's average system cost (ASC) shall be according to the functionalization prescribed in the tables beginning below. Direct analysis on an account may be performed only if the tables below state specifically that a Utility may perform a direct analysis on the account. The direct analyses on specific accounts must be consistent with the directions provided below.

BPA will use the escalation factors described in Section IV.

### *I. Functionalization Rules:*

(A) If a Utility has previously functionalized an account by direct analysis as set forth in Subsection II(A) below, the Utility is not thereafter allowed to use the specific functionalization ratio method without prior approval from BPA.

(B) The Utility must submit with its Appendix 1 any and all work papers, documents, or other materials that demonstrate that the functionalization under its direct analysis assigns costs based upon the actual and/or intended functional use of those items. Failure to submit such documentation will result in the entire account being functionalized to Distribution/Other.

### *II. Functionalization Methods:*

(A) By direct analysis, which assigns costs to either the production, transmission, or distribution function of the Utility. Such analysis is subject to BPA review and approval.

(B) According to the specific functionalization methods as shown in the following tables and endnotes.

**I. Rate Base Accounts: Functionalization Method**

Assets	Functionalization	Forecast Escalation Factor
105 (Plant Held for Future Use)	Functionalize to Distribution/Other.	TBD
106 (Completed Construction not Classified)	Direct Analysis	TBD
107, 120.1 (CWIP)	Functionalize to Distribution/Other.	TBD
108 (PIS Depreciation Reserve)	The same functionalization used for accounts 310-373, Plant in Service (PIS).	TBD
108 (General Plant Depreciation Reserve)	Functionalize according to the General Plant ratio.	TBD
111 (Accumulated Amortization)	The same functionalization used for accounts 301-303, Intangible Plant.	TBD
114 (Acquisition Adjustment)	Direct Analysis	TBD
115 (Accumulated Provision for Depreciation and Amortization of Electric Plant Acquisition Adjustments)	Direct Analysis	TBD
120.1-120.6 less 120.5 (Nuclear Fuel)	Functionalize to Production.	TBD
123 – 123.1 Investment in Associated Companies	Direct Analysis	TBD
124 (Other Investment)	Functionalize to Distribution/Other.	TBD
151-152 (Fuel Stock)	Functionalize to Production.	TBD
154 (Materials and Supplies)	Functionalize on the ratio of Transmission and Distribution Gross Plant including General Plant.	TBD
155-156 Other Materials and Supplies	Functionalize to Distribution/Other.	TBD
158.1 & 158.2 (EPA Allowance Inventory)	Direct Analysis	TBD

163 (Stores Expense Undistributed)	Functionalize on the ratio of Transmission and Distribution Gross Plant excluding General Plant.	TBD
165 (Prepayments)	Direct Analysis	TBD
175-176 (Derivative Instruments)	Functionalize to Production.	TBD
181 (Unamortized Debt Expense)	Functionalize on the ratios of Production, Transmission and Distribution Gross Plant including General Plant.	TBD
182.1 (Extraordinary Property Losses)	Functionalize to Distribution/Other	TBD
182.2 (Unrecovered Regulatory Study Costs)	Functionalize to Distribution/Other	TBD
182.3 (Regulatory Assets)	Direct Analysis	TBD
183 (Preliminary Survey)	Functionalize to Distribution/Other	TBD
184 (Clearing Accounts)	Functionalize to Distribution/Other	TBD
185 (Temporary Facilities)	Functionalize on the ratios of Production, Transmission and Distribution Gross Plant including General Plant.	TBD
186 (Miscellaneous Debits)	Direct Analysis	TBD
187 (Deferred Losses from Disposition of Utility Plant)	Direct Analysis	TBD
188 (R&D Expenditures)	Functionalize to Distribution/Other	TBD
189 (Unamortized Loss on Reacquired Debt)	Functionalize on the ratio of Transmission and Distribution Gross Plant including General Plant	TBD
190 (Accumulated Deferred Income Taxes)	Functionalize to Distribution/Other	TBD

**Rate Base Accounts: Functionalization Method**

Liabilities	Functionalization	Forecast Escalation Factor
244-245 (Derivative Instruments)	Functionalize to Production.	TBD
252 (Customer Advances)	Functionalize to Distribution/Other	TBD
253 (Other Deferred Credits)	Direct Analysis	TBD
254 (Other Regulatory Liabilities)	Direct Analysis	TBD
255 (Accumulated Deferred Investment Tax Credits)	Functionalize to Distribution/Other	TBD
256 (Deferred Gain from Disposition of Utility Plant)	The same functionalization used for account 105, Electric Plant Held for Future Use.	TBD
257 (Unamortized Gain Reacquired Debt)	Functionalize on the ratio of Production, Transmission and Distribution Gross Plant including General Plant.	TBD
281-283 (Accumulated Deferred Income Taxes)	Functionalize to Distribution/Other	TBD

### Rate Base Accounts: Functionalization Method

Electric Plant Chart of Accounts	Functionalization	Forecast Escalation Factor
301 (Intangible Plant)	Functionalize to Distribution/Other	TBD
302-303 (Intangible Plant)	Direct Analysis	TBD
310-346 (Production Plant in Service)	Functionalize directly to Production.	TBD
350-359 (Transmission Plant)	Functionalize to Transmission	TBD
360- 374 (Distribution Plant)	Functionalize to Distribution/Other.	TBD
389 (Land and Land Rights)	Functionalize on the ratios of Production, Transmission and Distribution Gross Plant excluding General Plant.	TBD
390 (Structures and Improvements)	Functionalize on the ratios of Production, Transmission and Distribution Gross Plant excluding General Plant.	TBD
391 (Office Furniture and Equipment)	Labor ratios.	TBD
392 (Transportation Equipment)	Functionalize on the ratio of Transmission and Distribution Gross Plant excluding General Plant.	TBD
393 (Stores Equipment)	Functionalize on the ratio of Production, Transmission and Distribution Gross Plant excluding General Plant.	TBD
394 (Tools, Shop and Garage Equipment)	Functionalize on the ratio of Production, Transmission and Distribution Gross Plant excluding General Plant.	TBD
395 (Laboratory Equipment)	Functionalize on the ratio of Production, Transmission and Distribution Gross Plant excluding General Plant.	TBD
396 (Power Operated Equipment)	Functionalize on the ratio of Transmission and Distribution Gross Plant excluding General Plant.	TBD

397 (Communication Equipment)	Functionalize on the ratio of Production, Transmission and Distribution Gross Plant excluding General Plant.	TBD
398 (Miscellaneous Equipment)	Functionalize on the ratio of Production, Transmission and Distribution Gross Plant excluding General Plant.	TBD
399 (Other Tangible Property)	Direct Analysis. Utility must provide additional data showing the functional nature of Plant contained in this account.	TBD
399.1 (Asset Retirement Costs for General Plant)	Functionalize on the ratio of Transmission and Distribution Gross Plant excluding General Plant.	TBD
Other Rate Base Accounts not Listed Above	Functionalize to Distribution/Other.	TBD

## 2. Expense Accounts: Functionalization Method

Expense Accounts	Functionalization	Forecast Escalation Factor
501-557 (Fuel, Purchased Power and Power Production Expenses)	Functionalize to Production.	TBD
560-564 (Transmission Expenses)	Functionalize to Transmission	TBD
565 (Transmission of Electricity by Others) (Wheeling Expense)	Functionalize to Transmission	TBD
566-574 (Transmission Expenses)	Functionalize to Transmission	TBD
580-598 (Distribution Expenses)	Functionalize to Distribution/Other.	TBD
901-905 (Customer Accounts Expenses)	Functionalize to Distribution/Other.	TBD
906-910 (Customer Service Information Expenses)	Functionalize to Distribution/Other.	TBD
911-917 (Sales Expenses)	Functionalize to Distribution/Other.	TBD
920 (Administrative & General Salaries)	Labor Ratios.	TBD
921 (Office Supplies & Expenses)	Labor Ratios.	TBD
922 (Administrative Expenses Transferred-Cr.)	Labor Ratios.	TBD
923 (Outside Services Employed)	Functionalize on the ratio of Transmission and Distribution Gross Plant excluding General Plant.	TBD
924 (Property Insurance)	Functionalize on the ratio of Production, Transmission, and Distribution Gross Plant including General Plant.	TBD
925 (Injuries & Damages)	Labor Ratios.	TBD
926 (Employee Pensions & Benefits)	Labor Ratios.	TBD
927 (Franchise Requirements)	Functionalize to Distribution/Other.	TBD

928 (Regulatory Comm. Fees & Expenses)	Functionalize on the ratio of Transmission and Distribution Gross Plant excluding General Plant.	TBD
929 (Duplicate Charges-Cr.)	Functionalize on the ratio of Production, Transmission, and Distribution Gross Plant including General Plant.	TBD
930.1 (General Advertising)	Functionalize to Distribution/Other.	TBD
930.2 (Miscellaneous General Expenses)	Functionalize to Distribution/Other.	TBD
931 (Rents)	Functionalize to Distribution/Other.	TBD
933 (Transportation Expenses (Non Major Only))	Functionalize to Distribution/Other.	TBD
935 (Maintenance of General Plant)	Functionalize according to the ratio developed from the functionalized totals of accounts 390, 391, 397 and 398.	TBD
Other Expense Accounts not Listed Above	Functionalize to Distribution/Other.	TBD

### 3. Income Accounts: Functionalization Method

Income Accounts	Functionalization	Forecast Escalation Factor
403 (PIS Depreciation Expense)	The same functionalization used for Accounts 301-373, Plant in Service.	TBD
404 (Amortization of Limited-Term Electric Plant)	Functionalize to Distribution/Other - Utility may perform direct analysis on this account for alternative functionalization.	TBD
405 (Amortization of Other Electric Plant)	Functionalize to Distribution/Other - Utility may perform direct analysis on this account for alternative functionalization.	TBD
406 (Amortization of Electric Plant Acquisition Adjustments)	Functionalize to Distribution/Other - Utility may perform direct analysis on this account for alternative functionalization.	TBD
407 (Amortization of Property Losses, Unrecovered Plant and Regulatory Study Costs)	Functionalize to Distribution/Other - Utility may perform direct analysis on this account for alternative functionalization.	TBD
407.3 (Regulatory Debits)	Direct Analysis.	TBD
407.4 (Regulatory Credits)	Direct Analysis.	TBD
408.1 (Other Taxes)	With the exception of property taxes and labor related taxes, all taxes will be functionalized to Distribution/Other. Property taxes will be functionalized using the gross plant ratio including general plant. Labor related taxes will be functionalized using labor ratios.	TBD

409.1, 410.1, 411.1, 411.4 (Income Taxes)	Functionalize to Distribution/Other. Federal Income taxes are included in the rate of return calculation	TBD
411.6, 411.7 (Gain from Disposition of Utility Plant)	Functionalize to Distribution/Other.	TBD
447 (Sales For Resale)	Functionalize to Production. (Credit)	TBD
450-453 (Other Operating Revenues)	Functionalize to Production - Utility may perform direct analysis on this account for alternative functionalization.	TBD
454 (Rent from Electric Property)	Functionalize to according to the ratio of Transmission Plant to Distribution Plant.	TBD
456 (Other Electric Revenues)	Direct Analysis.	TBD
456.1 (Wheeling Revenue)	Functionalize to Transmission	TBD

## AVERAGE SYSTEM COST METHODOLOGY ENDNOTES

a/ Contract System Costs shall reflect the costs and the revenues arising from conservation and/or retail rate schedules implemented to induce conservation, and for which the utility receives Billing Credits. These Billing Credit revenues shall be functionalized on the same basis as the cost of the related conservation measures.

b/ The overall rate of return (ROR) to be applied to a utility's Exchange Period rate base as shown in Appendix 1 shall be equal to its weighted cost of capital (WCC), including debt, preferred stock and equity, from its most recently approved Regulatory Body rate order. For multi-jurisdictional Utilities, a Utility will first determine the WCC for each Jurisdiction. The utility will then determine a region-wide WCC based on applying the WCC times the Regulatory Body approved rate base from the same rate order used for the WCC.

The ROE used in the WCC calculation will then be grossed up for Federal income taxes at the marginal Federal income tax rate using the following formula to determine the percentage increase in the ROE used for ASC determination:

$$\text{FIT Adder} = \{(\text{WCC} - (\text{Cost of Debt} * (\text{Debt} / (\text{Total Capital})))\} * \{(\text{Federal Tax Rate} / (1 - \text{Federal Tax Rate}))\}$$

The sum of the FIT Adder plus the ROE equals the Federal income tax adjusted ROE (TAROE). The TAROE will replace the ROE in the WCC calculation to determine a Federal income tax adjusted weighted cost of capital (TAWCC). The TAWCC will be multiplied by the total rate base from Schedule 1 to determine the return component on Schedule 2.

For Utilities that do not use depreciation for jurisdictional rate setting, the return will be equal to the lesser of:

- (1) Interest expense plus depreciation, or
  - (2) Debt service and revenue financed capital expenditures,
- plus the debt service coverage or times interest earned ratio approved by its Regulatory Body and included in the cost of service study used to determine retail rates currently in effect. In no event will the sum of Contract System Cost and Distribution/Other costs be greater than the revenue requirement used to set retail rates.

c/ A tax-exempt Utility may include in-lieu taxes up to an amount that is comparable, for each unit of government paid in-lieu taxes, with taxes that would have been paid by a non-tax exempt utility to that unit of government. In no event shall the utility's regional total in column 2 be greater than the actual amount paid or the amount used to determine the total revenue requirement. In-lieu taxes shall be functionalized according to a direct analysis included with the Appendix 1 or to Distribution/Other.

d/ The cost of additional resources sufficient to serve any New Large Single Load (NLSL) that was not contracted for, or committed to, prior to September 1, 1979, is to be determined as follows:

- (1) To the extent that any NLSLs are served by dedicated resources at the cost of those resources, including applicable transmission;

(2) In the amount that NLSLs are not served by dedicated resources, at BPA's New Resources (NR) rates as established from time to time pursuant to section 7(f) of the Northwest Power Act, and as applicable to the utility, and applicable BPA transmission charges if transmission costs are excluded in the determination of BPA's New Resource rate, to the extent such costs are recovered by the utility's retail rates in the applicable jurisdiction; and

(3) To the extent that NLSLs are not served by dedicated resources plus the utility's purchases at the New Resource rate, the costs of such excess load shall be determined by multiplying the kilowatt-hours not served under subsections (1) and (2) above, by the cost (annual fixed plus variable cost, including an appropriate portion of general plant, administrative and general expense and other items not directly assignable) per kilowatt-hour of all baseload resources and long term power purchases (five years or more in duration), as allowed in the regulatory jurisdiction to establish retail rates during the Exchange Period, exclusive of the following resources and purchases: (a) purchases at the NR rate; (b) purchases at the PF Exchange rate, pursuant to section 5(c) of the Northwest Power Act; (c) resources sold to BPA, pursuant to section 6(c)(1) of the Northwest Power Act; (d) dedicated resources specified in endnote d(1) of this Methodology; (e) resources and purchases committed to the utility's load as of September 1, 1979, under a power requirements contract or that would have been so committed had the utility entered into such a contract; and (f) experimental or demonstration units or purchases therefrom. Transmission needed to carry power from such generation resources or power purchases shall be priced at the average cost of transmission during the Exchange Period.

(4) Any kilowatt-hours of NLSLs not met under subsection (1), (2), or (3) above will be assumed to be supplied from the most recently completed or acquired baseload resource(s) or long term power purchase(s), exclusive of dedicated resources and experimental or demonstration resources or purchases therefrom, that are committed to the utility's load as of September 1, 1979, under a power requirements contract. The cost of these generation resources and long-term power purchases and the transmission cost associated with these resources or purchases will be calculated as specified in subsection (3) above.

(5) If the NLSL is served on any energy or capacity interruptive basis, the utility shall prepare a calculation subject to review by BPA of the fixed (if any) and variable costs of providing such service, except that the amount excluded from ASC for the NLSL shall not be less than the transmission and generation cost included in the retail rate charged the NLSL.

e/ The losses shall be the distribution energy losses occurring between the transmission portion of the utility's system and the meters measuring firm energy load. Losses shall be established according to a study (engineering, statistical and other) that is submitted to BPA by the Utility which will be subject to review by BPA. This study shall be in sufficient detail so as to accurately identify average distribution losses associated with the utility's total load, excluded loads, and the residential load. Distribution losses shall include losses associated with distribution substations, primary distribution facilities, distribution transformers, secondary distribution facilities and service drops.

f/ Cash working capital is a ratemaking convention that is not included in the Form 1, but a part of all electric utility rate filings as a component of rate base. For determining the allowable amount of cash working capital in rate base for a Utility, BPA will allow no more than 1/8 of the functionalized costs of

total production O&M, transmission O&M and Administrative and General O&M less purchased power and fuel costs. The table below shows the calculation of cash working capital.

<u>Schedule 1A: Cash Working Capital</u>				
(1)	(4)	(5)	(6)	(7)
Account Description	Total	Production	Transmission	Distribution/ Other
<b>Cash Working Capital Calculation:</b>				
Total Production O&M				
Total Transmission O&M				
Total Administrative and General O&M				
Less Purchased Power and Fuel Costs				
<b><u>Revised Total O&amp;M Expenses</u></b>				
<b>One-Eighth Revised Total O&amp;M Expenses</b>				
<b><u>Allowable Functionalized Cash Working Capital</u></b>				

g/ Conservation costs are costs of actual or planned load reduction resulting from direct application of a conservation measure (Northwest Power Act, section 3(19)(B)) by means of physical improvements, alterations, devices, or other installations which are measurable in units. A contract charge paid pursuant to BPA’s long term conservation contract will be an allowable conservation cost in Average System Cost. Conservation costs funded only by the utility will be functionalized to Production in the Utility’s Average System Cost. Conservation costs incurred to promote changes in consumer behavior including costs attributable to brochures, advertising, pamphlets, leaflets, and similar items, or required by a government entity through building code provisions or programmatic conservation costs in lieu of building code provisions’ will be functionalized to Distribution/Other. Conservation surcharges imposed pursuant to section 4(f)(2) of the Northwest Power Act or other similar surcharges or penalties imposed on a Utility for failure to meet required conservation efforts will also be functionalized to Distribution/Other. Conservation and associated costs must be generally consistent with the Council’s resource plan as determined by the Administrator.

h/ Public Purpose Charges collected by Utilities and distributed to independent third party non-profit organizations or state and local entities (recipient organizations) for the purposes of acquiring conservation and renewable resources shall be functionalized based on a direct analysis of the spending of the recipient organizations. In order to be included in Contract System Costs, the conservation and renewable resources acquired by the recipient must be included in the Utility’s Integrated Resource Plan or similar document and, in the case of dispatchable resources, must be included in the Utility’s resource stack. BPA will treat expenditures of Public Purchase Charge funds similar to Utility conservation costs. Conservation costs incurred to promote changes in consumer behavior including costs attributable to brochures, advertising, pamphlets, leaflets, and similar items, or required by a government entity through building code provisions or programmatic conservation costs in lieu of building code provisions will be functionalized to Distribution/Other.

i/ If a Utility has a ruling from its Regulatory Body that separates its transmission and distribution lines using FERC’s seven factor test contained in Order 888, and its Form 1 filing is consistent with the Regulatory Body's order, the utility will include the transmission-related costs and wheeling revenues directly from its Form 1 filing. However, if a Utility is not required to file a Form 1, or it has not

received an order from its Regulatory Body separating its lines between transmission and distribution, then it must perform a direct analysis on its transmission costs and wheeling revenues. The direct analysis must allocate transmission costs and wheeling revenues so that only the costs and revenues of transmission lines rated at 115kV or above are included as transmission. Alternatively, the direct analysis may use FERC's seven factor test for separating transmission and distribution lines to determine the costs attributable to transmission.

j/ All revenues associated with production, transmission or operations will be functionalized to production or transmission respectively.